KAPS

ANNUAL REPORT

1973

KAPS TRANSPORT LTD.

ANNUAL REPORT
JUNE 30, 1973

DIRECTORS

einhold Kapchinsky	Edmonton, Alberta
. David Kapchinsky	Edmonton, Alberta
erhard Kapchinsky	Fort St. John, B.C.
orne C. Leitch	Edmonton, Alberta
ichard A. N. Bonnycastle	Calgary, Alberta
ric Connelly	Calgary, Alberta
. Richard Chater	Toronto, Ontario
ames W. McCutcheon	Toronto, Ontario
ndrew Sarlos	Toronto, Ontario

OFFICERS

Chairman	Reinhold Kapchinsky
President	H. David Kapchinsky
Vice-President	Gerhard Kapchinsky
Vice-President	Walter H. Horton
Secretary	Alan J. Emsley
Treasurer	Alan J. Emsley

REGISTERED OFFICES
9520 - 51st Avenue, Edmonton, Alberta

EXECUTIVE OFFICES
9303 - 51st Avenue, Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR
Royal Trust Company, Edmonton, Vancouver,
Winnipeg and Toronto

STOCK EXCHANGE
Toronto Stock Exchange

BANKERS
Bank of Montreal
Mercantile Bank of Canada

AUDITORS
Thorne Gunn & Co.,
Edmonton, Alberta

ANNUAL MEETING
November 27th, 1973 at 10:00 a.m.
Chateau Lacombe, Edmonton, Alberta.

FINANCIAL HIGHLIGHTS

	1973	1972	1971	1970	1969	1968
Total revenue	$21,864,000	$21,927,000	$16,193,000	$14,047,000	$8,034,000	$6,480,000
Net income (note 1)	$1,077,000	$1,405,000	$736,000	$1,227,000	$869,000	$488,000
Net return (note 2)	3.2%	5.4%	4.5%	8.7%	8.4%	7.5%
Net income per common share						
Before extraordinary income	27.6¢	47.9¢	31.9¢	60.5¢	38.8¢	28.0¢
Extraordinary income	14.5¢	9.2¢			11.2¢	
Net income	42.1¢	57.1¢	31.9¢	60.5¢	50.0¢	28.0¢
Cash flow from operations	$3,482,000	$3,575,000	$2,689,000	$2,715,000	$1,486,000	$967,000
Per common share (Note 2)	$1.36	$1.45	$1.17	$1.34	$.85	$.56
Shareholders' equity	$12,787,000	$11,928,000	$10,122,000	$7,283,000	$3,172,000	$2,493,000
Per common share	$4.99	$4.70	$4.15	$3.36	$1.82	$1.43
Working capital	$1,270,000	$1,760,000	$1,370,000	$1,424,000	$1,139,000	$107,000
Total assets	$32,431,000	$28,426,000	$22,036,000	$16,094,000	$10,475,000	$4,854,000
Shares outstanding (note 3)	2,557,109	2,459,638	2,306,845	2,027,010	1,740,000	1,740,000

Note 1 - Including extraordinary income
Note 2 - Excluding extraordinary income
Note 3 - Weighted average common shares outstanding for the year. Common shares outstanding in 1969 and 1968 are adjusted for the 3 for 1 stock split of November, 1969 and all per share figures are adjusted accordingly.

REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to report to you on the results of your company for the past fiscal year. 1973 was a most significant year for your company because during the year a number of long-anticipated events materialized:

1. The Alyeska Pipeline to carry crude from Prudhoe Bay to American markets was approved by the U.S. Senate.
2. Two new projects of major capital proportions for the extraction of oil from the Athabasca Oil Sands were announced.
3. Imperial Oil confirmed the significance of its findings in the Mackenzie Delta.

Each of these announcements will mean increased opportunities for the services your company is able to provide.

During the past year Kaps Transport Ltd. has improved its capabilities to capitalize on these opportunities in a number of ways. For example, your company improved its portfolio of fixed assets with certain strategic additions and improvements. Also your company embarked upon a program aimed at developing the more structured management organization now demanded by the size and scope of the company's activities.

Kaps Transport Ltd. remains a unique service company in northern Canada and Alaska as it is the only company able to integrate four modes of transportation service for its customers. The company is strategically located to exploit the opportunities resulting from the imminent start of construction on the Alyeska Pipeline, the commencement of an Athabasca Oil Sands Project and the continuous exploration work in the Mackenzie Delta and the Arctic Islands. The proposed Mackenzie Pipeline and Polar Gas Project continue to offer long term prospects for Kaps Transport Ltd.

It is important for the company's shareholders to recognize that there are many factors, environmental, political and international, that affect the demand for the company's services. As a result, while it is expected that the overall trend for Kaps Transport Ltd. shall be one of growth, the shareholders should expect fluctuations in the company's performance occasioned by these factors. Political uncertainty in the energy field, the delay of the announcements referred to previously and extraordinary environmental conditions all resulted in decreased growth in the demand for transportation services in the North, with the result that Kaps Transport Ltd. in 1973 generated about the same volume of business as it did in 1972. However, increased competition, particularly for ground transportation, reduced the company's profit margins.

Financial Highlights for 1973 versus 1972

Revenues amounted to $21,864,000 versus $21,927,000 in 1972
Net profit amounted to $705,000 or 27.6¢/share versus $1,179,000 or 47.9¢/share in 1972
Extraordinary profit yielded an additional $372,000 or 14.5¢/share versus $226,000 or 9.2¢/share in 1972.

The following is a breakout of the company's divisional gross revenues.

	1973	1972
Transportation	$ 15,522,000	$ 14,786,000
Manufacturing	4,665,000	3,628,000
Other	5,873,000	5,085,000
	26,060,000	23,499,000
Interdivision Eliminations	4,196,000	1,572,000
Net Reported Revenues	$ 21,864,000	$ 21,927,000

Of the $4,196,000 eliminated for interdivisional transactions in 1973, $3,288,000 related to the construction of one tug and six barges for Kaps Transport by Kaps Manufacturing and the construction of the Kaps Manufacturing plant by Alberta Equipment Centre.

The decline in net earnings before extraordinary items was the result of decreased operating profits of $1,423,000 in 1973 versus $2,316,000 in 1972, resulting from decreased revenues ($63,000), increased operating costs ($618,000), increased interest costs ($138,000) and increased depreciation ($379,000) on new equipment. Your management reacted to increased costs by reducing its administrative costs $305,000.

The company's fourth quarter was particularly disappointing with revenues declining from $5,117,000 in 1972 to $3,308,000 in 1973 with substantial losses resulting. Cash flow in 1973 was a healthy $3,854,000 including extraordinary item, versus $3,801,000 in 1972 calculated on the same basis.

Divisional Reports

A. Transportation

i. **Land**
As reported earlier, revenues declined in this area of activity as a result of increased competition which we expect will continue in the future.

ii. **Marine**
During the past year the Company built one ocean-going tug and six barges, bringing its total to 10 tugs and 26 barges. As a result of the recent permit modifications by the Canadian Transport Commission, Kaps Transport is now licensed to carry 18,000 tons of cargo. Since the shipping season runs 100 to 110 days per year allowing 4.5 trips per season, Kaps can carry 81,000 tons per season. For the year ended June 30, 1973 Kaps carried 70,000 tons compared with 55,000 tons in 1972 and 40,000 tons in 1971. Kaps will have carried a reduced volume this current year of approximately 60,000 tons as a result of the rail strike and reduced activity on the river.

iii. **Air**
Revenue in 1973 increased 57% over the previous year. Mackenzie Air Ltd. received approval of its application for a U.S. Foreign Air Carrier Permit. Also during the year the company applied to the Canadian Transport Commission for permission to operate an F-28. This application is still pending.

B. Manufacturing

During the year Kaps Manufacturing Limited, formerly Moffat Tank Co. Ltd. completed the construction of its new 38,000 sq. ft. manufacturing facility adjacent to the company head office in Edmonton. These facilities represent a 10-fold increase over the facilities that were previously occupied by Moffat Tank Co. Ltd. We believe that Kaps Manufacturing Limited has the largest and most modern manufacturing facilities of this type in Alberta. This plant places the company in an excellent position to construct gas plants, repair compressors and service the company's own marine requirements. The potential volume of business available to Kaps Manufacturing Limited can be significant in the next few years and would serve to lessen the company's dependence on its transportation revenues. During the past year the company incurred certain extra costs associated with the startup of its new facility. Of these costs $262,000 were deferred and will be written off over a period not to exceed five years.

C. Other

i. During the year the company sold the goodwill of Harvey Agencies Ltd. for $416,000, realizing an extraordinary profit of $372,000 to your company after tax.
ii. Kaps Transport Ltd. transferred its pipeline business, including all of its pipeline equipment, to Kaps-Entrepose Ltd. which is 50% owned by Kaps Transport. This company has now received its first contract for pipeline construction. Kaps

Entrepose Ltd. also moved into its new offices and repair shop in Edmonton. It is believed that Kaps-Entrepose Ltd. will continue to benefit from the demand for new pipeline construction in Western Canada and the North. During the past year Kaps Entrepose has expended a great deal of time and effort modifying the techniques of underwater pipeline construction, primarily for the Arctic Islands. Kaps' partner in Kaps-Entrepose, Societé Entrepose of Paris, France, has had extensive experience in underwater pipeline construction in many parts of the world. Your management feels that there is potential for substantial business of this type.

iii. Management is continuing to evaluate the relevant returns on investment generated by the companies in the service group to determine the financial contribution on invested capital and the contributions to corporate objectives. It is expected, as opportunities present themselves, that the companies not meeting acceptable criteria will be disposed of.

Management

On February 1st, 1973, Mr. Alan Farmer became President and Chief Executive Officer replacing Mr. Reinhold Kapchinsky who became Chairman of the Board, a position he still retains. Your Board of Directors accepted Mr. Farmer's resignation on July 18th, 1973 and appointed Mr. H. David Kapchinsky as President and Chief Executive Officer of the company.

General

Your company's equity now amounts to $4.99 per share. This represents in excess of a three fold increase in value over the year that the company's shares were first offered to the public. Kaps Transport Ltd. has an excellent asset base from which to benefit from demand for its services, occasioned by the exploration, extraction or transportation of oil and gas.

November 8, 1973
Edmonton, Alberta

H. David Kapchinsky
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders of
Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at June 30, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.

Edmonton, Alberta
September 24, 1973

Chartered Accountants

KAPS TRANSPORT LTD.

[Incorporated under the laws of Alberta]
and subsidiary companies

CONSOLIDATED BALANCE SHEET - JUNE 30, 1973
[with comparative figures at June 30, 1972]

ASSETS	1973	1972
CURRENT ASSETS		
Cash	$ 162,000	$ 72,000
Accounts receivable	4,961,000	5,684,000
Agreements receivable (note 2)	670,000	270,000
Income taxes recoverable	127,000	
Inventories (note 3)	3,186,000	2,536,000
Prepaid expenses and deposits	698,000	774,000
	9,804,000	9,336,000
INVESTMENTS		
Joint ventures	641,000	689,000
50% Owned company	393,000	
	1,034,000	689,000
FIXED ASSETS (note 4)		
Land, buildings and equipment, at cost	24,682,000	20,593,000
Less accumulated depreciation	5,773,000	4,533,000
	18,909,000	16,060,000
INTANGIBLES AND DEFERRED CHARGES		
Excess of cost over book value at dates of acquiring shares of subsidiary companies	2,298,000	2,298,000
Deferred development costs	292,000	
Other deferred charges, at cost less amortization	94,000	43,000
	2,684,000	2,341,000
	$32,431,000	$28,426,000

Approved by the Board
R. Kapchinsky, Director
H. D. Kapchinsky, Director

LIABILITIES	1973	1972
CURRENT LIABILITIES		
Bank advances (note 5b)	$2,761,000	$1,824,000
Accounts payable and accrued liabilities	3,505,000	3,433,000
Income and other taxes payable		327,000
Deferred revenue	108,000	204,000
Principal due within one year on long-term debt	2,160,000	1,788,000
	8,534,000	7,576,000
LONG-TERM DEBT (note 5)		
Bank debentures	8,096,000	5,700,000
Term bank loan	116,000	172,000
Finance contracts	297,000	712,000
Agreements and mortgages payable	516,000	633,000
	9,025,000	7,217,000
Less principal included in current liabilities	2,160,000	1,788,000
	6,865,000	5,429,000
DEFERRED INCOME TAXES	4,148,000	3,407,000
MINORITY INTEREST	97,000	86,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,563,265 Common shares (2,535,215 shares in 1972)	7,896,000	7,730,000
RETAINED EARNINGS	4,891,000	4,198,000
	12,787,000	11,928,000
	$32,431,000	$28,426,000

LONG-TERM LEASES (note 7)

KAPS TRANSPORT LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED JUNE 30, 1973
[with comparative figures for 1972]

	1973		1972	
Divisions	Revenue	Gross operating profit	Revenue	Gross operating profit
Transportation	$15,522,000	$2,586,000	$14,786,000	$3,293,000
Manufacturing	4,665,000	505,000	3,628,000	707,000
Other	5,873,000	966,000	5,085,000	812,000
	26,060,000	4,057,000	23,499,000	4,812,000
Elimination of inter-division transactions	4,196,000	305,000	1,572,000	
	$21,864,000	3,752,000	$21,927,000	4,812,000
Administrative expenses		1,765,000		2,070,000
Interest on long-term debt		564,000		426,000
Minority interest in net income of subsidiary company		11,000		20,000
		2,340,000		2,516,000
Income before income taxes and extraordinary item		1,412,000		2,296,000
Income taxes				
Current		(34,000)		390,000
Deferred		741,000		727,000
		707,000		1,117,000
Income before extraordinary item		705,000		1,179,000
Extraordinary item				
Sale of goodwill by subsidiary company less current income taxes of $46,000 ($24,000 in 1972) related thereto		372,000		226,000
NET INCOME FOR THE YEAR		$1,077,000		$1,405,000
Earnings per common share, on a weighted average basis				
Income before extraordinary item		27.6¢		47.9¢
Net income for the year		42.1¢		57.1¢

On a fully diluted basis earnings per common share are materially the same as those calculated on a weighted average basis.

	1973	1972
Depreciation deducted in arriving at gross operating profit	$2,003,000	$1,624,000
Cash flow from operations	$3,482,000	$3,575,000
Cash flow per common share	$1.36	$1.45

KAPS TRANSPORT LTD.
and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED JUNE 30, 1973
[with comparative figures for 1972]

	1973	1972
Balance at beginning of year		
As previously reported	$4,039,000	$3,035,000
Adjustment of prior year's income (note 8)	176,000	54,000
Adjustment of prior years' deferred income taxes	(17,000)	(48,000)
As restated	4,198,000	3,041,000
Net income for the year	1,077,000	1,405,000
	5,275,000	4,446,000
Dividends paid	384,000	248,000
BALANCE AT END OF YEAR	$4,891,000	$4,198,000

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JUNE 30, 1973
[with comparative figures for 1972]

	1973	1972
SOURCE OF FUNDS		
Income before extraordinary item	$ 705,000	$1,179,000
Items not involving current funds		
Depreciation and amortization	2,012,000	1,649,000
Deferred income taxes	741,000	727,000
Minority interest in net income of subsidiary company	11,000	20,000
Other	13,000	
	3,482,000	3,575,000
Sale of goodwill by subsidiary company less income taxes related thereto	372,000	226,000
Increase in long-term debt	1,436,000	1,899,000
Issue of common shares	166,000	649,000
Decrease in investment in joint ventures	48,000	281,000
	5,504,000	6,630,000
APPLICATION OF FUNDS		
Additions to fixed assets, net	4,852,000	5,532,000
Investment in 50% owned company	406,000	
Deferred development costs	292,000	
Other deferred charges	60,000	2,000
Dividends paid	384,000	248,000
Acquisition of subsidiary companies		336,000
Working capital deficiency of subsidiary companies at acquisition		122,000
	5,994,000	6,240,000
INCREASE [DECREASE] IN WORKING CAPITAL	(490,000)	390,000
WORKING CAPITAL AT BEGINNING OF YEAR		
As previously reported	1,584,000	1,316,000
Adjustment of prior year's income (note 8)	176,000	54,000
As restated	1,760,000	1,370,000
WORKING CAPITAL AT END OF YEAR	$1,270,000	$1,760,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES

(a) Basis of consolidation

The consolidated financial statements include the accounts of Kaps Transport Ltd. and its subsidiary companies, all of which are wholly-owned with the exception of one company, Kordyban Transport Ltd., which is 51% owned.

(b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. In some cases certain companies in the group perform services for other companies. The resulting inter-company revenues and any gross profit therefrom have been eliminated in these consolidated financial statements.

(c) Valuation of inventories

Inventories are valued as follows

Parts and supplies - at the lower of cost and replacement cost

Automotive and heavy equipment - at the lower of cost and net realizable value

(d) Joint ventures and 50% owned company

The investments in joint ventures and 50% owned company are carried at cost of investment, including advances, plus equity in unremitted earnings since acquisition, which is not in excess of equity in underlying net assets.

The company's equity in net income of joint ventures and 50% owned company included in revenue on the consolidated statement of income is as follows

	1973	1972
Joint ventures	$70,000	$101,000
50% owned company	(13,000)	

(e) Depreciation of fixed assets

Depreciation is recorded in the accounts from the date of acquisition of the assets at rates and on bases (set out in note 4) calculated to amortize the cost of the assets, less residual value, if any, over the estimated useful life of the assets.

(f) Amortization of deferred charges

Deferred charges are amortized by charges against earnings over the periods of benefit to the companies. In 1973 amortization charged against earnings amounted to $9,000 ($25,000 in 1972).

(g) Income taxes

The companies reflect in earnings income taxes currently payable or recoverable and income taxes deferred by claiming certain expenses, principally depreciation of fixed assets, for income tax purposes in amounts which differ from those recorded in the accounts. The accumulated total of such income tax deferments is reflected in the accompanying balance sheet as "Deferred income taxes".

2. AGREEMENTS RECEIVABLE

Included in agreements receivable is a balance of $170,000 arising from the sale in 1969 of all of the shares of Keir Air Transport Ltd. The purchasers are in default under this agreement as a payment due August 15, 1970 was not received. Collection action has been commenced and it appears at this time that the balance receivable will be realized in full.

3. INVENTORIES

Inventories consist of the following

	1973	1972
Parts and supplies	$1,275,000	$ 884,000
Automotive and heavy equipment ...	1,911,000	1,652,000
	$3,186,000	$2,536,000

4. FIXED ASSETS

	1973			1972
	Cost	Accumulated depreciation	Net	Net
Land	$ 276,000		$ 276,000	$ 169,000
Buildings	1,269,000	$ 92,000	1,177,000	390,000
Automotive equipment	9,526,000	3,190,000	6,336,000	6,961,000
Portable field equipment	2,684,000	746,000	1,938,000	1,150,000
Aircraft	1,264,000	227,000	1,037,000	997,000
Marine equipment	7,255,000	967,000	6,288,000	4,680,000
Leasehold improvements	75,000	38,000	37,000	35,000
Office and shop equipment	493,000	132,000	361,000	97,000
Aggregate equipment	1,242,000	342,000	900,000	1,025,000
Gravel pits	401,000	29,000	372,000	444,000
Roadways	197,000	10,000	187,000	112,000
	$24,682,000	$5,773,000	$18,909,000	$16,060,000

Depreciation bases and rates used by the companies are

On a diminishing balance basis	
Buildings	
Concrete block	5%
Frame	10%
Office and shop equipment	20%
Roadways	4%
On a straight line basis	
Automotive and portable field equipment	10% - 30%
Aircraft	12½%
Marine equipment	6⅔%
Aggregate equipment	10% - 20%
Leasehold improvements	equal annual amounts over the life of the lease
On a production basis	
Gravel pits	annual production over estimated reserves

5. LONG-TERM DEBT

(a) Bank debentures

	1973	1972
Parent company and certain subsidiary companies	$7,360,000	$5,700,000
Payable $445,000 quarterly; interest payable monthly at various rates related to the bank's prime lending rate; secured by first fixed specific mortgage on certain equipment and first floating charge on all assets		
Subsidiary company	736,000	
Payable in monthly instalments of $3,500 to $10,000 with final payment of $232,000 at the end of the seventh year; interest payable monthly at various rates related to the bank's prime lending rate; secured by first fixed specific mortgage on certain buildings and equipment and first floating charge on all assets		
	$8,096,000	$5,700,000

5. LONG-TERM DEBT (continued)

(b) Term bank loan

	1973	1972
11% loan, payable $58,000 annually	$ 116,000	$ 172,000

This term bank loan and the bank advances included in current liabilities are secured by general assignment of book debts and chattel mortgages on certain fixed assets

(c) Finance contracts

	1973	1972
Payments due in 1973		$ 414,000
Payments due in 1974	$ 216,000	233,000
Payments due in 1975	81,000	65,000
	$ 297,000	$ 712,000

(d) Agreements and mortgages payable

	1973	1972
4% Agreement payable on purchase of the shares of Al Renk & Sons, Inc.		$ 54,000
3% Agreement payable on purchase of the shares of Dales Holdings Ltd. payable $25,000 July 20, 1973 and $265,000 July 20, 1974	$ 290,000	315,000
6% Mortgage, payable $38,000 annually	204,000	241,000
9½% Mortgage, payable $250 monthly including principal and interest . . .	22,000	23,000
	$ 516,000	$ 633,000

6. CAPITAL STOCK

(a) Issue of common shares

Common shares were issued as follows

	1973		1972	
	Shares	Amount	Shares	Amount
For cash	28,050	$166,308	79,700	$468,183
For common shares of subsidiary company . .			15,000	180,000
	28,050	$166,308	94,700	$648,183

6. CAPITAL STOCK (continued)

(b) Share options and warrants

At June 30, 1973, 69,000 common shares were reserved for issue under outstanding share options and warrants (117,800 common shares at June 30, 1972).

Share options - granted for a five year period; exercisable on completion of previous year's employment to a maximum of 20% on a cumulative basis in each year at $6.30 per share		
Options outstanding at beginning of year		55,500
Less		
Options exercised	5,750	
Options cancelled	20,750	26,500
Share options outstanding at end of year		29,000
Warrants - exercisable at any time to March 1, 1975 at $12.00 per share		40,000
		69,000

During the year warrants to purchase 22,300 common shares at $5.83 per share were exercised.

(c) Escrow agreement

At June 30, 1973 all shares had been released from escrow.

7. LONG-TERM LEASES

The company rents two buildings from two of its directors under long-term "net net" leases which expire August 31, 1977. The annual rentals under these leases total $28,500. There are options to extend these leases for a further five years at the same annual rentals.

The company rents its office premises from two of its directors under a long-term "net net" lease which expires October 31, 1980. The annual rental under this lease is $36,000. There are two five-year renewal options to extend this lease at annual rentals to be negotiated.

A subsidiary company leases an aircraft under a rental purchase contract with an annual rental of $142,000. The contract extends to 1980 with annual options to purchase at various amounts during the term of the contract.

8. ADJUSTMENT OF PRIOR YEAR'S INCOME

In 1973 the company received a refund of its 1966 contributions to an executive pension plan and was reassessed income taxes and interest related thereto.

Provision had been made in 1972 for the reassessment. The 1972 comparative figures in the accompanying financial statements have been restated to also give effect at June 30, 1971 to the refund received.

No contributions have been made to the plan subsequent to June 30, 1966.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate direct remuneration paid or payable by the companies to directors and officers amounted to $185,000 ($174,000 in 1972).

10. COMPARATIVE FIGURES

Certain 1972 comparative figures in the accompanying financial statements have been reclassified to conform to 1973 presentation.

KAPS

SECOND QUARTER REPORT

DECEMBER 31, 1973

MESSAGE FROM THE PRESIDENT

For the six months ended December 31, 1973, revenue decreased to $11,830,000 from $14,427,000 during the corresponding period in 1972. Net earnings decreased to a loss of $212,000 from a profit of $953,000 or a loss of 8.3¢ per share compared to a profit of 37.1¢ per share, both based on 2,563,265 shares outstanding.

The major factors contributing to the drop in earnings in the second quarter were decreased revenues resulting from the uncertainty of drilling and exploration programs in northern areas, increased competition, and rising costs causing decreased operating profits. Certain continuing fixed costs were incurred in order to ensure the Company's ability to provide customers with needed services while maintaining a position to benefit from expected increased activity.

Included in direct operating expenses is a before tax loss of $101,000 incurred on the disposal of the business and inventory of the unprofitable U.S. Branch of Norcan Parts & Equipment (1965) Ltd. This represents an after tax loss of 2.0¢ per share.

Subsequent to December 31, 1973 the Company has expanded it's Earthmoving operations and is presently working at the Athabasca Oil Sands Project. The Company's Alaska operations are also active servicing the Aleyeska Pipeline Project.

On January 25, 1974 the Company closed a ten year ten million dollar refinancing with IMB Leasing Limited. 6.7 million dollars of the proceeds have been used to retire a five year bank debenture and the balance of the proceeds have been added to working capital.

Edmonton, Alberta
February 27, 1974

H. D. Kapchinsky
President

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

Six months ended December 31, 1973
(with comparative figures for 1972)
(unaudited)

	1973	1972
Revenue	$11,830,000	$14,427,000
Direct operating expenses	9,022,000	10,350,000
Provision for depreciation	1,227,000	1,013,000
	10,249,000	11,363,000
Gross Operating Profit	1,581,000	3,064,000
Administrative expenses	1,533,000	944,000
Interest on long-term debt	402,000	249,000
Minority interest in net income of subsidiary company	10,000	25,000
	1,945,000	1,218,000
Income (loss) Before Income Taxes	(364,000)	1,846,000
Income Taxes — Current	376,000	383,000
— Deferred	(528,000)	510,000
	(152,000)	893,000
Net income (loss) for the period	$ (212,000)	$ 953,000
Earnings (loss) per share based on 2,563,265 shares outstanding	(8.3)¢	37.1¢

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six months ended December 31, 1973
(with comparative figures for 1972)
(unaudited)

	1973	1972
Source of Funds		
Net Income (loss)	$ (212,000)	$ 953,000
Items not Involving Current Funds		
Depreciation and Amortization	1,227,000	1,019,000
Deferred Income Taxes	(528,000)	510,000
Minority Interest in Net Income of Subsidiary Company	10,000	25,000
	497,000	2,507,000
Issue of Common Shares	—	101,000
Increase in Long-Term Debt	—	269,000
Prior Period Adjustment	—	182,000
Reduction in Investment in 50% owned Company	133,000	—
	630,000	3,059,000
Application of Funds		
Increase in investment in Joint Ventures	14,000	37,000
Additions to Fixed Assets, Net	1,799,000	1,978,000
Additions to Intangible Assets, Net	71,000	49,000
Dividends to Common Shares	192,000	192,000
Decrease in Long-Term Debt	819,000	—
	2,895,000	2,256,000
Increase (Decrease) in Working Capital	(2,265,000)	803,000
Working Capital, June 30	1,270,000	1,584,000
Working Capital (Deficiency), December 31	$ (995,000)	$2,387,000